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ECONOMIC TRENDS

1988 MID YEAR REVIEW

This issue of Economic Trends provides a general overview of the economic situation in Canada in the first half of 1988, and more detailed examination of Prince Edward Island based on preliminary information for 1988. The reader should bear in mind that this information is subject to revision, though it does provide sufficient data to gain general insights into the economy.

1. National Outlook

Canada's economic performance during the first six months of 1988 continued at a robust pace of 4.2 per cent in constant dollars on an annualized basis fuelled mainly by strong business investment. The Canadian and United States economies recovered from the stock market crash last October 19th without the expected negative impact on consumer expenditure and business investment. Instead, concerns of inflationary pressures have become dominant in the minds of policy makers in both the United States and Canada. The current expansion in the Canadian economy has extended for five and one-half years without significant increases in the inflation rate and the fear is that this cannot continue. Unemployment in Canada, which averaged 8.9 per cent in 1987, fell to a seasonally adjusted level of 7.6 per cent in June 1988, the lowest monthly unemployment rate since August 1981.

Business investment in fixed capital led the growth of the Canadian economy in the first half of 1988 with constant dollar expenditure increasing at a 10.8 per cent annualized rate. The split into the two major components shows constant dollar business investment spending increased by 16.2 per cent while residential investment expenditures decreased by 0.6 per cent, both on an annualized basis. Housing starts which had reached 246,000 units in 1987, fell to a seasonally adjusted level of 198,000 units in the first six months of 1988.

Consumer spending has been a sustaining force throughout the current expansion but dipped slightly in the first quarter of 1988, and posted only a 1.7 per cent increase in constant dollars on an annualized basis during the first half of 1988. Most of this weakness occurred in personal expenditures on durable and semi-durable goods. Retail sales in current dollars increased 8.2 per cent in the first six months of 1988.

Canadians continued to lower their personal savings rate in the first half of 1988. The savings rate dropped to 8.1 per cent in the second quarter of 1988 from an annual rate of 9.6 per cent in 1987, and a post war peak of 17.8 per cent in 1982.

The rate of inflation, as measured by the rate of change in the All Items consumer price index, continued to hover around the 4 per cent level in Canada. The consumer price index increased by 4.1 per cent during the first half of 1988 compared to an annual rate of 4.4 per cent in 1987, 4.2 per cent in 1986, and 4.0 per cent in 1985. On a year over year basis, the inflation rate in Canada has been in the neighbourhood of 4 per cent since June 1984.

Interest rates rose throughout the first half of 1988 with the Bank Rate rising from 8.6 per cent in January to 9.4 per cent in June. The widening differential between interest rates in the United States and Canada was one factor causing the Canadian dollar to appreciate sharply against the U.S. dollar. In terms of U.S. funds the Canadian dollar reached a high of 83.5¢ in July 1988. The Canadian dollar traded at an average of 75.4¢ U.S. in 1987 and appreciated to average 80.0¢ U.S. during the first six months of 1988. Although the Canadian dollar has appreciated against the U.S. dollar, in the same time period it has depreciated relative to the Japanese yen, German mark, and British pound. The interest rate for short term Treasury bills averaged 8.7 per cent during the January-June 1988 period compared to an annual average rate of 8.2 per cent in 1987.

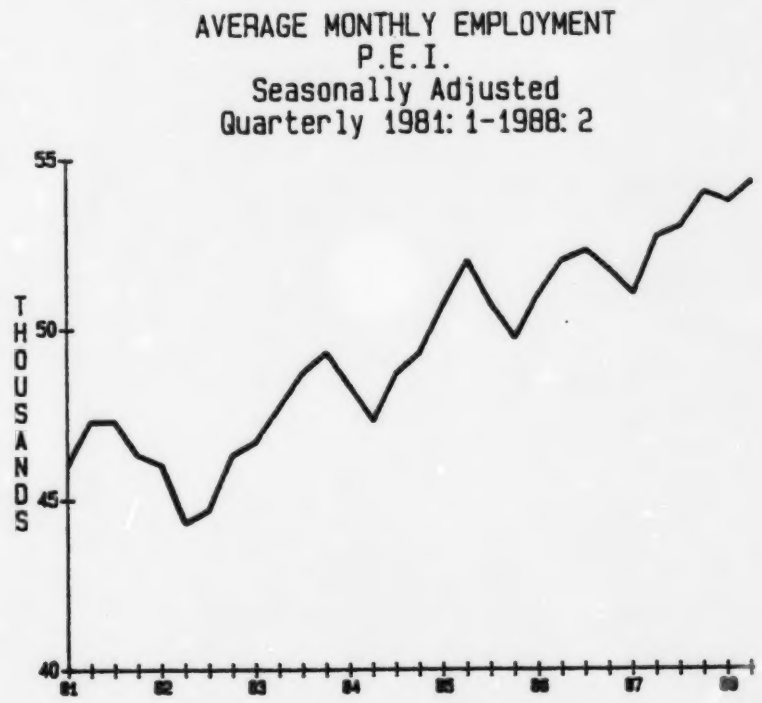
2. Prince Edward Island

The economy of Prince Edward Island experienced significant gains in the first half of 1988. The strength of the Island economy was most apparent in substantial employment increases, strong non-residential construction activity, record landings of lobster in the spring season, and an increase in tourism. Farm cash receipts were the one area of weakness with a decline of 13.4 per cent in the first six months of 1988 relative to the same period in 1987.

(a) Labour Market

Employment levels, unadjusted for seasonal variation, on Prince Edward Island averaged 52,000 during the first half of 1988. This represents an increase of 3.8 per cent over the same period in 1987. The employment gains were spread evenly across the six months with the exception of April which recorded the same level of employment in both 1987 and 1988. In the first half of 1988, these employment gains were concentrated in the primary and manufacturing industries, and agriculture. On a seasonally adjusted basis, employment in Prince Edward Island increased to an average level of 54,000 during the first half of 1988 from a level of 52,000 in the same period in 1987. Diagram 1 below shows the improved quarterly employment situation for Prince Edward Island.

Diagram 1



Source: Statistics Canada 71-001

The seasonally adjusted unemployment rate averaged 13.9 per cent during the first half of 1988 which was somewhat higher than the 13.3 per cent annual unemployment rate for 1987. The

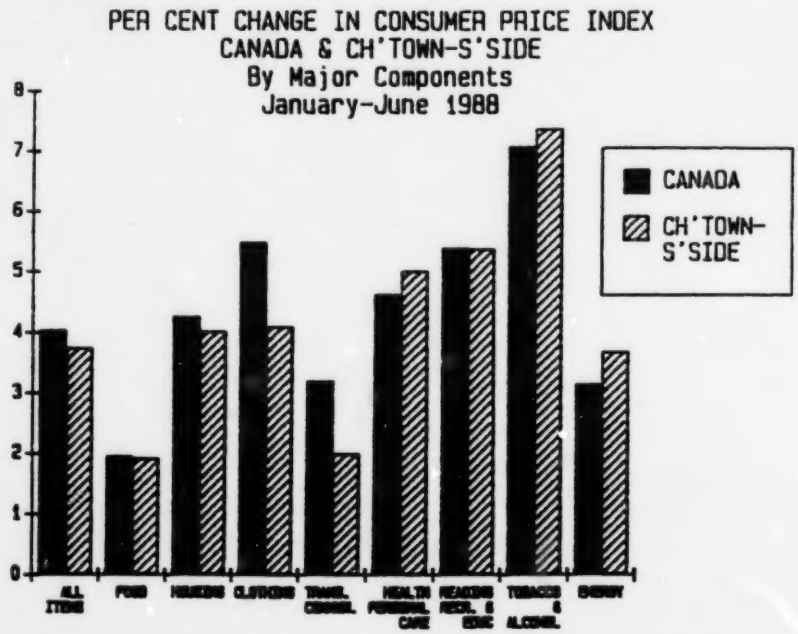
substantial employment gains mentioned above were offset by larger increases in the labour force leading to the higher unemployment rate. The increase in the labour force was largely the result of an increase in the participation rate, concentrated primarily among women aged 25-54 which rose by over 4 percentage points on a year over year basis. Consequently the labour force increased by 4.4 per cent from the previous year. Men and women aged 15-24 experienced declines in the participation rate. The seasonally adjusted labour force participation rate was 64.1 per cent during the first six months of 1988 compared to a 62.8 annual rate for 1987.

The average number of unemployment insurance beneficiaries during the first half of 1988 increased marginally to an average level of 15,047 over the first six months of 1988.

(b) **Consumer Prices**

The overall consumer price index for Charlottetown-Summerside increased by 3.8 per cent during the first half of 1988 compared to a national rate of 4.1 per cent. Diagram 2 below shows the percentage increases in the major components of the consumer price indices for Charlottetown-Summerside and Canada during the first six months of 1988.

Diagram 2



Source: Statistics Canada 62-001

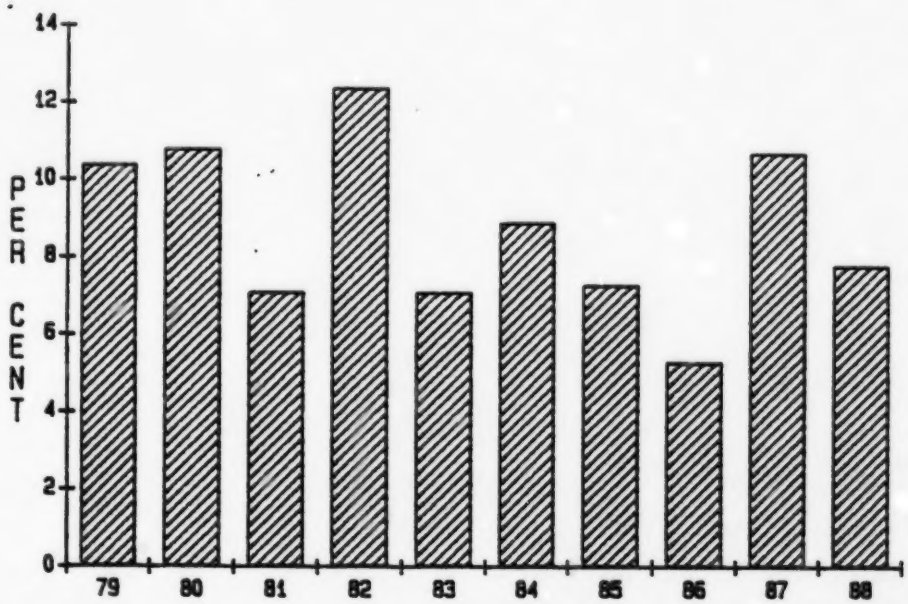
Most components of the consumer price index for Charlottetown-Summerside followed the national trend closely with the exception of transportation and communications and clothing which were lower than the national rate of increase. Energy prices which had fallen 14.1 and 1.5 per cent in 1986 and 1987 respectively, rose 3.7 per cent in the first half of 1988.

(c) Incomes

Available information concerning income growth during the first six months of 1988 suggest Islanders have again enjoyed strong income gains, although at a pace slower than the same period in 1987. Diagram 3 below depicts the growth rates in total wages & salaries for Prince Edward Island for the January to June period from 1979 to 1988.

Diagram 3

PER CENT CHANGE IN TOTAL WAGES & SALARIES
P.E.I. January-June 1979-88



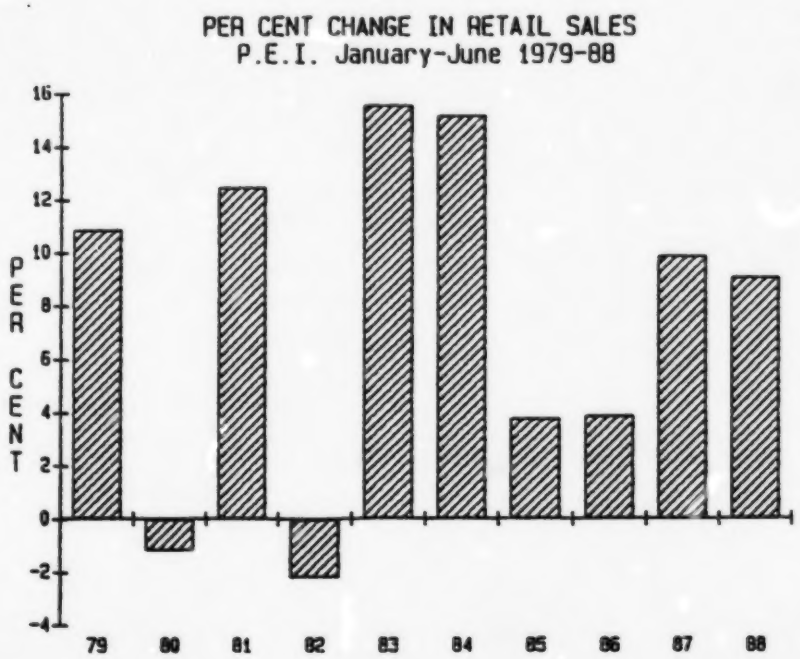
Source: Statistics Canada 72-005

According to Statistics Canada, the total value of wages & salaries paid on Prince Edward Island increased by 7.8 per cent during the first six months of 1988 to total $397 million. Unemployment Insurance benefits, which were $73.3 million during the first half of 1987, increased sharply to $82.3 million in 1988. This increase was the result of a 6.4 per cent rise in the average weekly payment, and a 5.2 per cent increase in the total number of weeks of unemployment insurance paid. Only a small increase in the number of beneficiaries occurred in the period January to June 1988.

(d) **Expenditures**

Consumer spending on Prince Edward Island continued at a healthy rate of growth during the first half of 1988 judging by retail sales activity. Diagram 4 below shows the rate of growth in retail sales in current dollars for the January-June period from 1979 to 1988.

Diagram 4



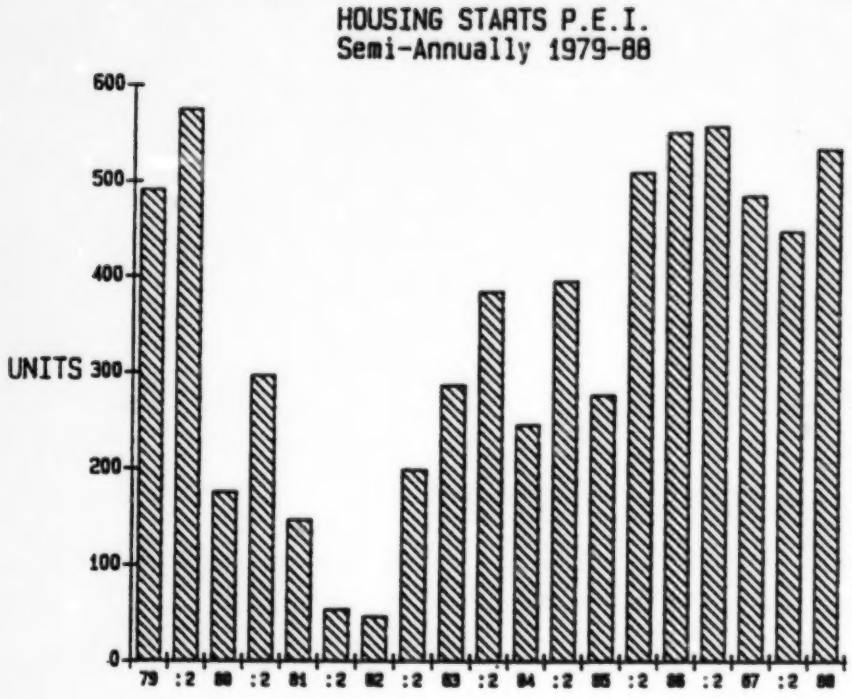
Source: Statistics Canada 63-005

Retail sales valued $316 million during the first six months of 1988 which represents an increase of 9.1 per cent over the corresponding period in 1987. Sales of new motor vehicles increased in the first half of 1988 by 2.8 per cent to total 3,510 units. The total value of new vehicle sales increased by 11.2 per cent in the first half of 1988 as the average price paid per vehicle increased by 8.4 per cent.

The number of tourist parties by all modes of transportation increased by 6.3 per cent in the May 15-June 30 period this year. Tourist vehicles from the United States recorded a 15.1 per cent increase in this period over 1987 levels. Receipts by restaurants, taverns and caterers increased by 16.1 per cent during the first six months of 1988 compared to 12.6 per cent in 1987, and a decline in receipts of -1.2 per cent in January-June 1986.

The mid year outlook for public and private investment expenditures indicates that expenditures on new capital are expected to reach record levels in 1988. Expenditures on new capital construction, and machinery and equipment are expected to total $372 million in 1988, an increase of 10.6 per cent over actual expenditures of $337 million in 1987. Construction activity is expected to increase by $26 million to a level of $275 million in 1988. Investment expenditure in machinery and equipment has increased from $87 million in 1987 to $97 million in 1988. The two major sources of this increased capital expenditure in 1988 are manufacturing industries and government departments. Although residential construction expenditure is expected to decline slightly in 1988 to a level of $126 million, the number of housing starts during the first half of 1988 increased to 534 units from 485 units in the corresponding period of 1987. Diagram 5 shows the number of housing starts semi-annually for Prince Edward Island from 1979 to 1988.

Diagram 5



Source: Statistics Canada 64-002

(e) Agriculture

Farm cash receipts totalled $105 million for the period January to June 1988 compared to $120 million during the same period in 1987. Major declines in receipts included potatoes (-44.4 per cent), hogs (-8.4 per cent), and cattle (-9.4 per cent). The dairy sector showed a 9.7 per cent increase in cash receipts to a total of $17.6 million in the January to June 1988 period.

Estimates of the 1988 potato seeded acreage by Statistics Canada puts the level at 68,000, an increase of 1,000 acres over the 1987 level. Total Canadian acreage declined by 2.7 per cent to a total of 277,100 acres. The U.S. acreage for the fall crop also declined by 2.6 per cent. Prince Edward Island was the only province to increase seeded acreage in 1988 according to Statistics Canada.

(f) **Fishing**

The fishing sector experienced good results in the first half of 1988 based on increased lobster catches. Lobster landings for the spring season totalled 18,068,000 pounds in 1988, which was 21.5 per cent higher than in 1987. The spring season alone almost matched the lobster landings for all of 1987 which was a record year for lobster in Prince Edward Island. The total value of the early lobster catch increased to $45 million from $36 million in 1987 on marginally higher average prices. Groundfish, pelagic, and estuarial fish landings decreased in value by 5.7 per cent in the first half of 1988 as sharply lower groundfish prices offset a 33.1 per cent increase in landings. A small decline in the average price for pelagic and estuarial fish was offset by a 3.0 per cent increase in landings to result in little change in the value of landings of this species. The shellfish industry, aside from lobster, has incurred continued difficulties early in the 1988 season. As a result, the January to June landings were 45.8 per cent lower than 1987 levels. Due to the spectacular increases in lobster landings, the total value of all species increased by 19.8 per cent in the first six months of 1988.

(g) **Manufacturing**

The value of manufacturing shipments for the first half of 1988 increased by 7.2 per cent to total $176 million. Within the total value of manufacturing shipments, Statistics Canada provides separate data on only fish and dairy products. The value of fish products shipments increased by 2.0 per cent to total $31 million in the first six months of 1988 over the same period in 1987, while dairy products increased 12.1 per cent to total $33 million.

3. Summary & Conclusion

The national economy continued to expand at a healthy pace on the strength of business investment. Available data for Prince Edward Island points to a prosperous first half in 1988. Improvements in Prince Edward Island were highlighted by the impressive employment gains, record catches of lobster in the spring season, upswing in non-residential construction, and increases in both retail sales, and receipts to restaurants, caterers, and taverns. Farm cash receipts were the weak spot in the Island economy as they declined sharply in the first six months of 1988 on lower receipts for potatoes, cattle, and hogs. The prospects are for an improved performance in farm cash receipts. While overall economic activity in Prince Edward Island progressed at a strong rate in the first half of 1988, high unemployment on the Island remains a concern.